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January 30, 2003

EX PARTE

Ms. Marlene H. Dortch  
Secretary  
Federal Communications Commission  
The Portals  
445 12<sup>th</sup> St. SW  
Washington, D.C. 20554

Re: WC Docket 01-338

Dear Ms. Dortch:

On January 29, 2003, BellSouth met with William Maher, Jeffery Carlisle and Scott Bergmann of the Wireline Competition Bureau in reference to the proceeding identified above. Attending this meeting on behalf of BellSouth were Pete Martin, Lisa Brooks, Bob Blau, Jon Banks and Glenn Reynolds. The attached presentation was discussed during this meeting. In addition, BellSouth urged the staff not to modify the existing use restrictions in a manner that would result in detrimental impact to the existing competitive market for special access.

In accordance with Commission rules, I am filing copies of this notice and attachment and request that they be included in the record of the proceeding identified above.

Sincerely,



Glenn T. Reynolds

cc: William Maher  
Jeffery Carlisle  
Scott Bergman  
Michelle Carey  
Tom Navin  
Jeremy Miller

# CLECs NOT IMPAIRED IN USING UNE LOOPS TO COMPETE

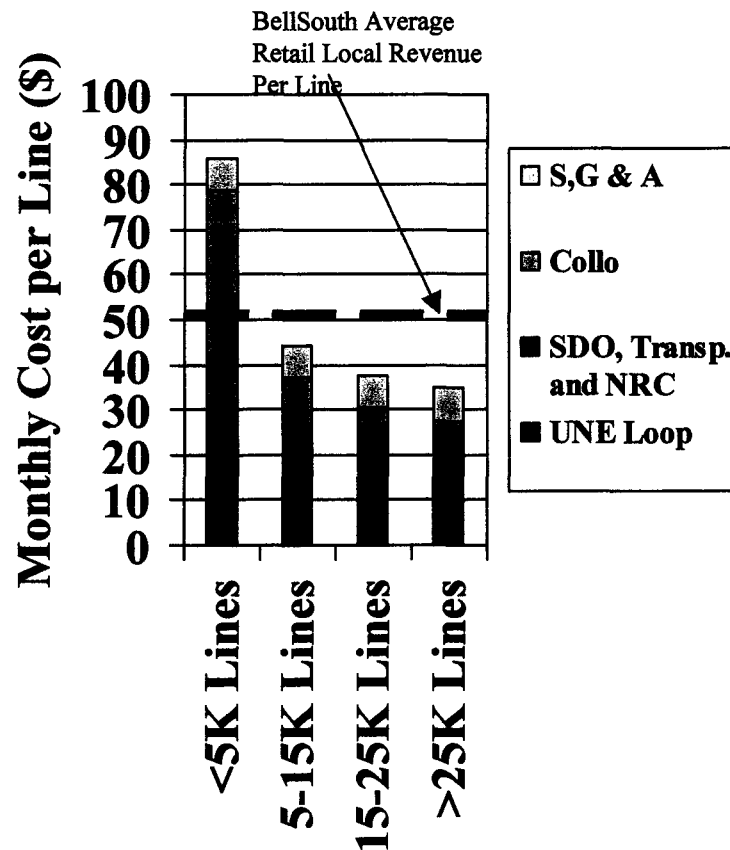
BellSouth Corporation

January 29, 2003

# KEY POINTS ON SWITCHING

1. CLECs can economically provide local service without unbundled switching.
  - Comparison of CLEC cost to TELRIC cost is the wrong test
  - CLEC cost more properly compared to revenue potential
  - WCOM's residential only focus is economically irrational
2. The record shows there is a lack of impairment on switching in all areas – CLECs use their own switches to serve customers in urban and rural areas.
3. However, it is a closer call in the rural areas/smaller wire centers.
  - CLECs are clearly not impaired without access to unbundled switching in wire centers with > 5,000 lines
  - 65% of the wire centers in the non-metro areas served by BellSouth have fewer than 5,000 lines
4. BellSouth's analysis using WCOM's cost model corroborates SBC's bottoms-up analysis

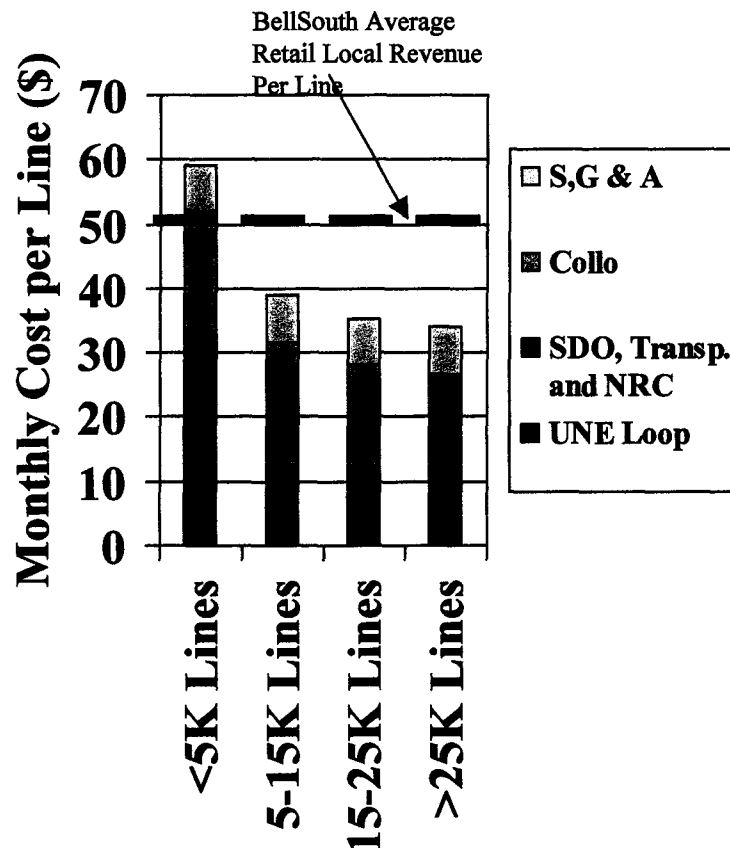
# WorldCom's Cost Model Shows That CLECs Are Not Impaired In Serving Wire Centers with > 5,000 Lines



- WorldCom's 1/08/03 ex parte used as the source for Collocation and "Switching, Digitizing and OSS" (SDO), Transport and Nonrecurring costs
- S,G&A cost taken from FCC Synthesis Model
- UNE Loop rate represents average rate for BST region
- Assumed an average of \$50 average retail local revenue per line (which correlates with BellSouth actual revenues per line)

***Key Point: Without UNE-P, CLECs can profitably serve wire centers with greater than 5000 lines based on WorldCom's own analysis***

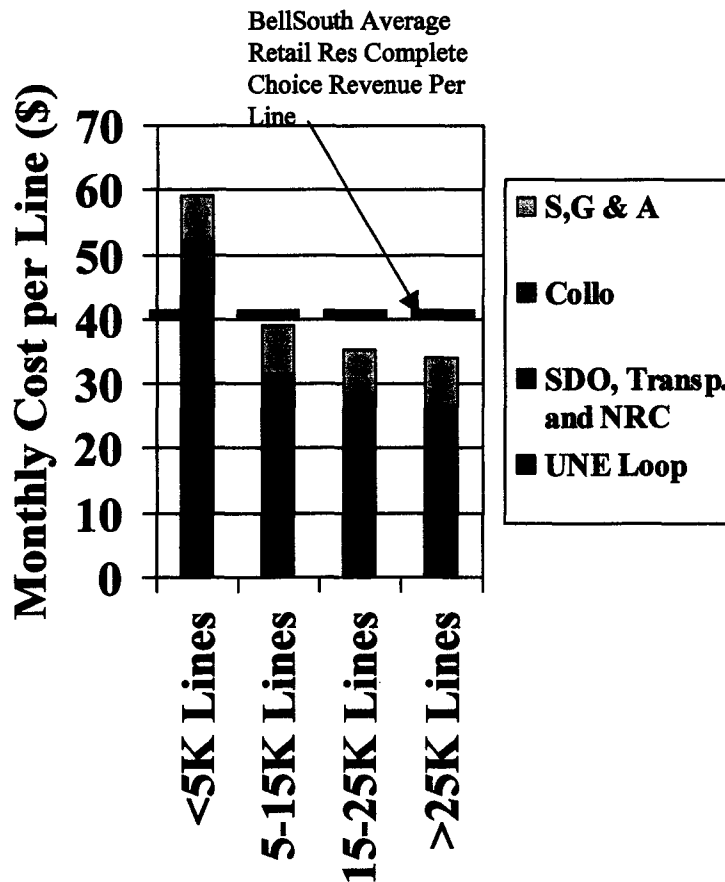
# Correcting for WorldCom's Overstated Collocation Costs Makes the Case for No Impairment Even Stronger



- WorldCom used collocation costs that are totally out of line with current rates
- Replacing WorldCom's overstated collocation costs with current actual collocation rates provides a more accurate picture of the margin available to facility based CLECs
- No changes made to WorldCom's calculation of SDO, transport and NRC costs

***Key Point: Correcting for WorldCom's overstated collocation costs makes it even more apparent that CLECs can profitably serve wire centers with greater than 5000 lines***

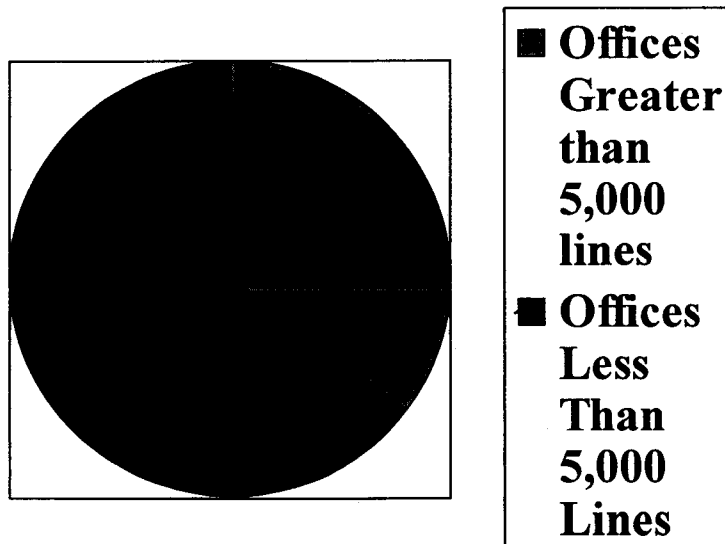
# View with Corrected Collocation Costs and Retail Residential Complete Choice Service



- Average Retail Revenue consists of Residence Complete Choice Service (\$31.64), SLC (\$6) and SWA (\$3.92)
- WorldCom and AT&T are currently targeting high revenue residential customers as evidenced by their pricing plans

***Key Point: CLECs can profitably serve residential customers in wire centers with greater than 5000 lines***

# Most Wire Centers Located Outside of an MSA Have Less Than 5,000 Lines



Outside of an MSA Breakdown

- Within BellSouth's serving area, 65% of the wire centers located outside of an MSA have less than 5,000 lines. Within MSAs, 27% of wire centers have less than 5,000 lines.
- 44% of BellSouth's total wire centers have less than 5,000 total lines
- An initial trigger based on 5,000 total lines in the wire center would thus ensure that many "rural" areas continue to have UNE-P available.

# Overview of Analysis Using WorldCom Cost Study

- WorldCom provided a cost study in its ex parte of January 8, 2003. BellSouth used the costs provided by WorldCom to determine whether a CLEC could profitably serve an area given those costs. BellSouth used WorldCom's costs for "Switching, Digitization and OSS" (SDO), Transport and Nonrecurring. BellSouth also used WorldCom's cost for collocation in Scenario 1.
- BellSouth used WorldCom's costs from its Case 2 analysis, with a 5% market-share. This was a conservative view, as use of higher market-share assumptions (WorldCom also modeled 7% and 10%) would lower the CLEC's cost per line.
- To the above costs, BellSouth added the cost of an average UNE loop. This cost is based on a weighted average from BellSouth's 9 state operating region. BellSouth then calculated an average revenue per line based on average business revenues per line and average revenue for BellSouth's Complete Choice residential customers (Complete Choice provides customers a combination of basic service and switch based vertical services). This number was rounded to \$50.00 for use in Scenario 1. SBC provides additional documentation to support a \$50.00 revenue figure in its 1/14/03 ex parte. The difference between cost and retail revenue per line provides the gross margin per line. BellSouth also added in Selling, General and Administrative costs (SG&A), taken from the FCC's Synthesis Model, to arrive at a net margin per line.
- BellSouth then corrected WorldCom's collocation costs to reflect current collocation rates (See Scenario 2). WorldCom apparently used overstated collocation costs in its original analysis. To correct the collocation costs, BellSouth used actual rates from its Georgia SGAT. Those calculations are shown in detail on the following pages. It should be noted that BellSouth made the conservative assumption that WorldCom would use caged collocation. If rates for cageless collocation were used, the collocation rates would be even lower.
- BellSouth then compared these costs to BellSouth's Average Residence Complete Choice revenue, (Scenario 3).



# BellSouth's Analysis showing that CLECs can profitably serve customers in wire centers with > 5,000 lines

## Scenarios 1 and 2

5% Market Share - WorldCom's Case 2: UNE - Avg Retail Local Revenue																	
Scenario 1	SDO *	Trans	NRC	Total SDO, Trans & NRC	Collo	UNE Loop	Total CLEC Cost	Avg Retail Local Rev **	Gross Margin	% Gross Margin	SG&A	Net Margin	% Net Margin	COs	Lines	Lines per CO	5% share
Lines > 25k	\$4.76	\$0.85	\$2.50	\$8.11	\$2.89	\$16.61	\$27.61	\$50.00	\$22.39	45%	\$7.32	\$15.07	30%	619	23,647,711	38,203	1,910
25K > Lines > 15K	\$5.14	\$0.99	\$2.50	\$8.63	\$5.16	\$16.61	\$30.40	\$50.00	\$19.60	39%	\$7.32	\$12.28	25%	490	9,604,473	19,601	980
15K > Lines > 5K	\$6.02	\$1.36	\$2.50	\$9.88	\$10.59	\$16.61	\$37.08	\$50.00	\$12.92	26%	\$7.32	\$5.60	11%	1,079	9,756,196	9,042	452
Lines < 5K	\$10.09	\$2.86	\$2.50	\$15.45	\$46.50	\$16.61	\$78.56	\$50.00	-\$28.56	-57%	\$7.32	-\$35.88	-72%	2,155	4,240,193	1,968	98
* Switching, digitization and OSS																	
** Approximation of BellSouth's average retail local revenue. Does not include revenues from long distance, memory call or inside wire. Supported by SBC's 1/14/03 ex parte.																	
5% Market Share - WorldCom's Case 2: UNE w/corrected collocation costs - Avg Retail Local Revenue																	
Scenario 2	SDO *	Trans	NRC	Total SDO, Trans & NRC	Corrected Collo	UNE Loop	Total CLEC Cost	Avg Retail Local Rev **	Gross Margin	% Gross Margin	SG&A	Net Margin	% Net Margin	COs	Lines	Lines per CO	5% share
Lines > 25k	\$4.76	\$0.85	\$2.50	\$8.11	\$1.97	\$16.61	\$26.69	\$50.00	\$23.31	47%	\$7.32	\$15.99	32%	619	23,647,711	38,203	1,910
25K > Lines > 15K	\$5.14	\$0.99	\$2.50	\$8.63	\$2.89	\$16.61	\$28.13	\$50.00	\$21.87	44%	\$7.32	\$14.55	29%	490	9,604,473	19,601	980
15K > Lines > 5K	\$6.02	\$1.36	\$2.50	\$9.88	\$5.11	\$16.61	\$31.60	\$50.00	\$18.40	37%	\$7.32	\$11.08	22%	1,079	9,756,196	9,042	452
Lines < 5K	\$10.09	\$2.86	\$2.50	\$15.45	\$19.87	\$16.61	\$51.93	\$50.00	-\$1.93	-4%	\$7.32	-\$9.25	-19%	2,155	4,240,193	1,968	98
* Switching, digitization and OSS																	
** Approximation of BellSouth's average retail local revenue. Does not include revenues from long distance, memory call or inside wire. Supported by SBC's 1/14/03 ex parte.																	
*** Corrected collocation costs based on GA SGAT rates																	

**BellSouth's Analysis showing that CLECs can profitably serve residence customers in wire centers with > 5,000 lines**

## Scenarios 3 and 4

**5% Market Share - WorldCom's Case 2: UNE w/corrected collocation costs - Res Complete Choice Revenue**

Scenario 3	SDO *	Trans	NRC	Total SDO, Trans & NRC	Correct-ed Collo	UNE Loop	Total CLEC Cost	Res Comp Choice Rev **	Gross Margin	% Gross Margin	SG&A	Net Margin	% Net Margin	COs	Lines	Lines per CO	5% share
Lines >25k	\$4.76	\$0.85	\$2.50	\$8.11	\$1.97	\$16.61	\$26.69	\$41.56	\$14.87	36%	\$7.32	\$7.55	18%	619	23,647,711	38,203	1,910
25K>Lines>15K	\$5.14	\$0.99	\$2.50	\$8.63	\$2.89	\$16.61	\$28.13	\$41.56	\$13.43	32%	\$7.32	\$6.11	15%	490	9,604,473	19,601	980
15K>Lines>5K	\$6.02	\$1.36	\$2.50	\$9.88	\$5.11	\$16.61	\$31.60	\$41.56	\$9.96	24%	\$7.32	\$2.64	6%	1,079	9,756,196	9,042	452
Lines<5K	\$10.09	\$2.86	\$2.50	\$15.45	\$19.87	\$16.61	\$51.93	\$41.56	-\$10.37	-25%	\$7.32	-\$17.69	-43%	2,155	4,240,193	1,968	98

\* Switching, digitization and OSS

**\*\* Average of BellSouth's Residential Complete Choice rates across the nine states. Also includes Subscriber Line Charge of \$6.00 and average SWA revenue of \$3.92 per line. Does not include revenues from long distance, memory call or inside wire.**

\*\*\* Corrected collocation costs based on GA SGAT rates

[illegible]

# Calculation of Collocation Costs Based on Actual Rates

Collocation					
		Georgia - SGAT			
		NRC	Recurring		
Space Availability Report		\$2,148.00	\$0.00		
Application Fee per Collo (initial)		\$3,850.00	\$0.00		
Space preparation - firm order processing		\$1,187.00	\$0.00		
Space preparation - CO mod per sq ft		\$0.00	\$2.02		
Space preparation - Common Sys mod per cage		\$0.00	\$95.23		
Cable records, per request		\$1,706.00	\$0.00		
Cable Installation, per cable		\$2,750.00	\$0.00		
Cable support structure, per entrance cable		\$0.00	\$13.35		
Floor Space per sq ft		\$0.00	\$7.50		
Power, per Fused Amp		\$0.00	\$8.06		
Welded Wire Cage - First 100 sq ft		\$0.00	\$161.27		
Welded Wire Cage - Each additional 50 sq ft		\$0.00	\$15.82		
Security System per sq ft		\$0.00	\$0.0172		
Security Access System per card		\$46.20	\$0.0607		
Collocation Build-out		\$16,281.80			
Monthly Recurring Charges			\$1,720.76		
Assumptions:					
Amps used			60		
Square Feet			100		
Security Cards			4		
Requests for Cable Records			2		
Cable Support Structures			2		
Nonrecurring Charge per 2-Wire Cross Connect		\$12.60			
Monthly Recurring Charge per 2-Wire Cross Connect			\$0.30		
Case 2: UNEs and 5% market share		Avg Lines in CO per MCI	5% share of avg lines in CO		
Lines>25k		38,203	1,910		
25k>Lines>15k		19,601	980		
15k>Lines>5k		9,042	452		
Lines<5k		1,968	98		
Case 2: UNEs and 5% market share		Collo NRC per line *	Collo Recurring per line	2-W cross connect NRC per line **	2-W cross connect Recurring per line
Lines>25k		\$0.07	\$0.90	\$0.70	\$0.30
25k>Lines>15k		\$0.14	\$1.76	\$0.70	\$0.30
15k>Lines>5k		\$0.30	\$3.81	\$0.70	\$0.30
Lines<5k		\$1.38	\$17.49	\$0.70	\$0.30
* Collocation Build-out costs amortized over 10 years and divided by 5% share of lines in CO					
** 2-W Cross Connect NRC amortized over 18 months customer life					